

MEMORANDUM

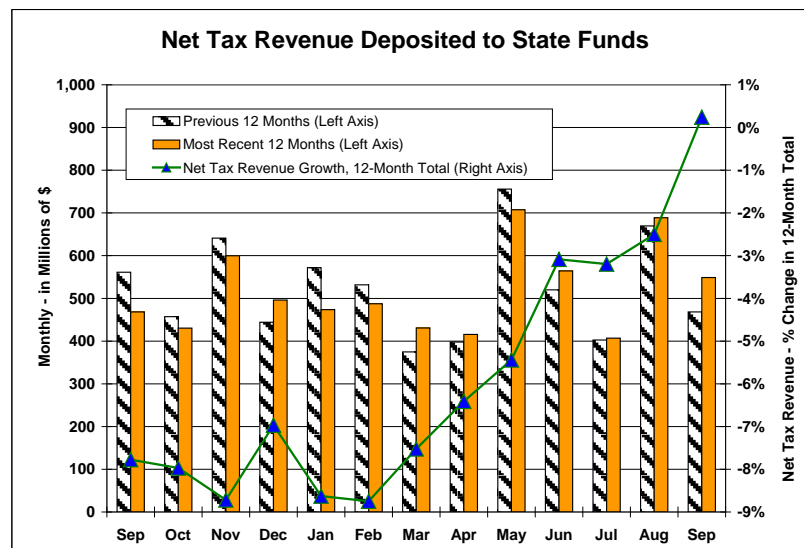
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: October 21, 2010

Twelve-month Total Net Tax Receipts Through September 30, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending September 2010 with comparisons to the previous twelve months. September 2009 to September 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

At \$548.8 million, September 2010 net tax revenue was 17.2% above last September but was below September 2008 and only 2.5% above three years ago. About one-half of the \$80.6 million September 2010 growth was due to the unusual way tax refunds were issued last year, with a very low level of tax refunds issued in July and August and a significant amount issued in September 2009. This resulted in an inflated increase when comparing September 2010 to September 2009.

The modest positive growth (0.2%) over the most recent 12-month period is the first positive growth in the annual total since March 2009. Although net tax revenue is now positive year-over-year, it remains 7.7% below the October 2008 peak.

Month of September Comparison

September net tax receipts totaled \$548.8 million, an increase of \$80.6 million (17.2%) compared to September 2009. Major taxes and their contribution to the month's change include:

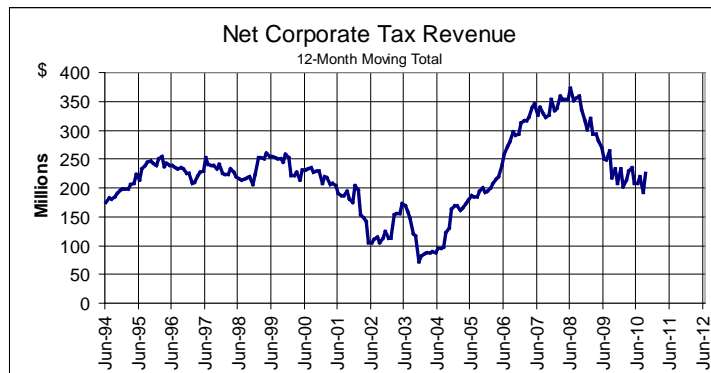
- Individual Income Tax (positive \$24.6 million, 11.3%) – About 40% of the month's double digit percentage increase was due to last year's delayed income tax refunds.
- Sales/Use Tax (positive \$17.1 million, 10.9%)
 - Road Use Tax Fund use tax/fees for new registrations were flat for the month.
 - Gross General Fund sales/use net tax receipts increased \$17.1 million with strong growth in gross revenues and some decline in the amount of tax refunds issued this year.
- Corporate Income Tax (positive \$32.5 million) – Gross corporate income tax receipts were up \$7.5 million (\$19.6 million) while refunds decreased \$25.0 million (55.8%). The large refund decrease is due to the unusual pattern of tax refunds last year at this time. This year's refund amount was much more in line with other Septembers.
- Fuel Tax (negative \$3.2 million, - 7.6%) – The majority of the net revenue decrease was due to a large amount of refunds issued September 22, 2010.
- Cigarette and Tobacco Taxes (positive \$1.9 million, 9.3%)
- Gambling Tax (positive \$5.2 million, 22.6%) – Gambling tax revenue is typically deposited on Thursdays and the revenue increase was due to this September's five Thursdays compared to September 2009's four.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending September 2010, net revenue from all taxes deposited to State funds totaled \$6.250 billion, an increase of \$15.2 million (0.2%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$7.8 million, 0.3%) – September marks the first positive reading after 17 months of negative growth in the annual individual income tax revenue amount.
- Sales/Use Tax (positive \$4.7 million, 0.2%) – September is the first positive reading after 16 months of negative growth in the annual sales/use tax revenue amount.

- Corporate Income Tax (positive \$8.2 million, 3.8%) – Corporate income tax had not shown positive growth in the annual amount for almost two years.



- Fuel Tax (negative \$6.0 million, - 1.4%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.6% while taxable diesel sales increased 1.0%, the first year-over-year increase in the annual amount of diesel sales for 23 months (since September 2008). Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 8.4% less than the March 2008 peak sales level.
- Gambling Tax (negative \$6.8 million, - 2.4%) – According to Racing and Gaming Commission statistics, 10 of Iowa's 17 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending September 2010, and the AGR growth for all facilities was negative 2.3% over the period.
- Cigarette and Tobacco Tax (negative \$4.8 million, - 2.0%) – Economic conditions and an increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (positive \$17.5 million, 21.8%) – The increase is likely the result of fewer redemptions of tax credit certificates compared to last year.

Tax Spotlight – Beer and Wine Tax

The Iowa beer tax was first imposed in 1933 by the enactment of HF 587 (Beer and Malt Liquors Act) at a rate of \$0.04 per gallon. The current beer tax rate went into effect July 1, 1986, with enactment of HF 2484 (Government Appropriations Act of 1986). The Iowa wine tax was first imposed with the enactment of SF 395 (Sales and Local Option Tax and Wine Sales Act of 1985) at a rate of \$1.50 per gallon. The rate was increased to its current level of \$1.75 per gallon in 1986 (HF 2484). The wine gallonage tax was expanded to include sales of wine shipped directly to consumers (not for resale) with enactment of HF 2531 (FY 2011 Standing Appropriations Act of 2010).

Beer and wine sales in Iowa are taxed under Iowa Code Chapter 123. The current tax rates are:

- Beer - \$0.19 per gallon
- Wine - \$1.75 per gallon

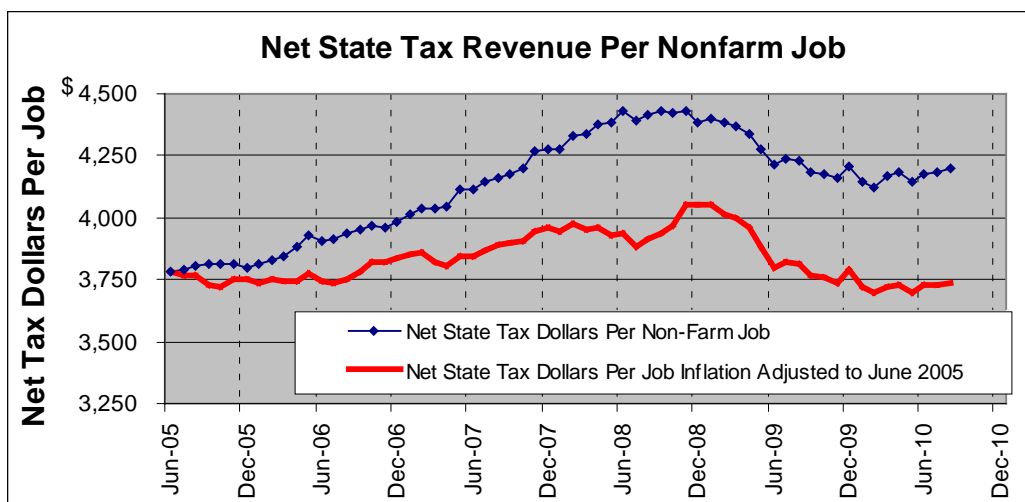
Revenue generated from the tax on beer is deposited to the State General Fund. Tax revenue generated from the sale of wine produced out-of-state is deposited to the Liquor Control Fund

administered by the Iowa Alcoholic Beverage Division of the Iowa Department of Commerce. Tax revenue generated from the sale of wine produced in Iowa is deposited to the Wine Gallonage Tax Fund under control of the Department of Economic Development for promotion of native Iowa wine and beer.

The State does not have a special tax for distilled spirits. Instead, the Alcoholic Beverage Division operates a distilled spirit wholesale distribution system and the State generates fee revenue through a wholesale price mark-up system established in 1987 (HF 2484). Prior to the wholesale system, the State operated retail liquor stores. The original wholesale mark-up rate of 60.0% was reduced to 50.0% in April 1987. Revenue generated through the mark-up system is deposited to the Liquor Control Fund as fee revenue. Excess revenue from that Fund is transferred to the State General Fund on a monthly basis.

Tax Revenue and Employment

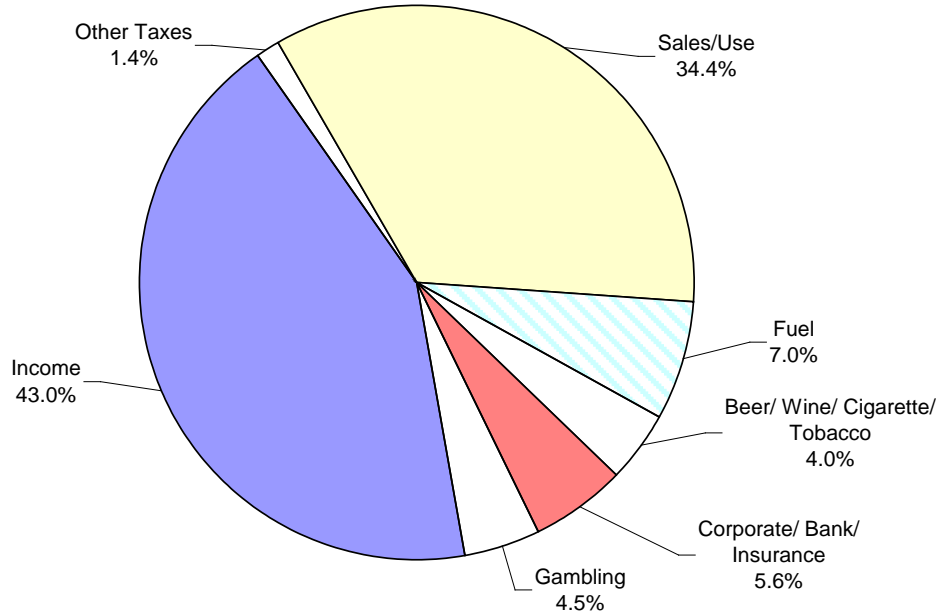
The average reading for Iowa non-farm employment over the 12 months ending August 2010 is 1,470,600, and net State tax receipts over the same twelve months totaled \$6.169 billion, or \$4,195 per nonfarm job. This is \$410 (10.8%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.2%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by approximately 0.3% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending September 2010

Net Revenue = \$6.250 Billion

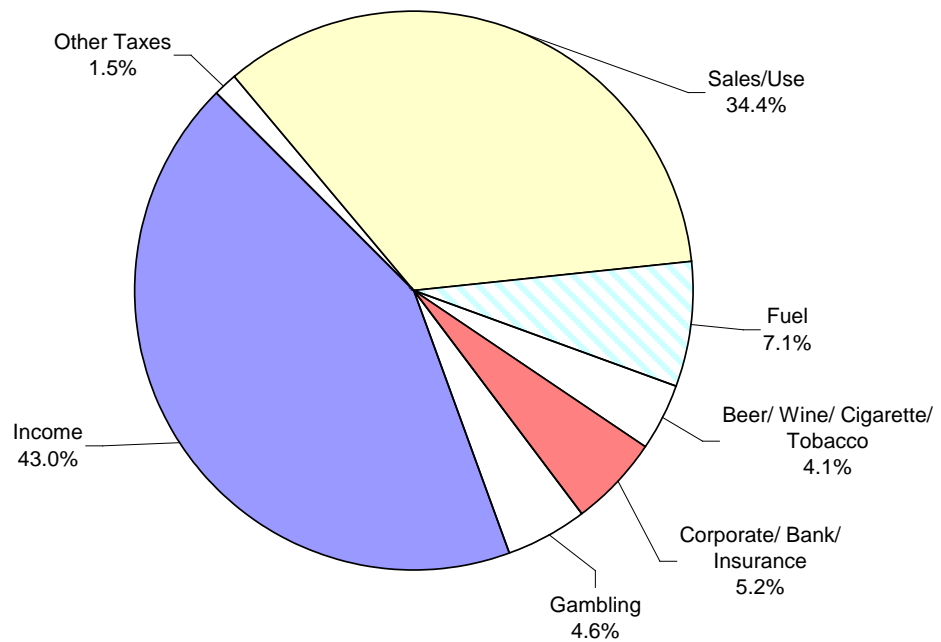
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending September 2009

Net Revenue = \$6.235 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of September 2009	Month of September 2010	September \$ Change	September % Change
Banking	\$ 29.1	\$ 28.1	\$ - 1.0	-3.4%	\$ 5.0	\$ 5.9	\$ 0.9	18.0%
Beer & Wine	20.9	21.2	0.3	1.4%	1.8	1.9	0.1	5.6%
Cigarette & Tobacco	235.0	230.2	- 4.8	-2.0%	20.5	22.4	1.9	9.3%
Corporate Income	216.7	224.9	8.2	3.8%	- 6.3	26.2	32.5	--
Fuel	443.6	437.6	- 6.0	-1.4%	42.2	39.0	- 3.2	-7.6%
Gambling	288.9	282.1	- 6.8	-2.4%	23.0	28.2	5.2	22.6%
Individual Income	2,682.5	2,690.3	7.8	0.3%	217.8	242.4	24.6	11.3%
Inheritance	69.1	67.3	- 1.8	-2.6%	4.9	5.5	0.6	12.2%
Insurance	80.3	97.8	17.5	21.8%	0.0	0.1	0.1	--
Other Taxes	8.8	6.3	- 2.5	-28.4%	0.7	1.7	1.0	142.9%
Real Estate Transfer	13.9	13.5	- 0.4	-2.9%	1.1	0.9	- 0.2	-18.2%
Sales/Use	2,145.9	2,150.6	4.7	0.2%	157.5	174.6	17.1	10.9%
Total Net Taxes	\$ 6,234.7	\$ 6,249.9	\$ 15.2	0.2%	\$ 468.2	\$ 548.8	\$ 80.6	17.2%
Gross Tax & Refunds								
Gross Tax	\$ 7,519.7	\$ 7,496.5	\$ - 23.2	-0.3%	\$ 567.4	\$ 612.9	\$ 45.5	8.0%
Tax Refunds	\$ - 1,284.9	\$ - 1,246.6	\$ 38.3	-3.0%	\$ - 99.1	\$ - 64.2	\$ 34.9	-35.2%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,286.2	\$ 5,264.0	\$ - 22.2	-0.4%	\$ 399.6	\$ 454.9	\$ 55.3	13.8%
Road Use Tax Fund	\$ 698.1	\$ 698.2	\$ 0.1	0.0%	\$ 66.4	\$ 63.3	\$ - 3.1	-4.7%
Non-GF Gambling	\$ 229.8	\$ 268.8	\$ 39.0	17.0%	\$ 0.9	\$ 27.9	\$ 27.0	3000.0%
Other State Funds	\$ 20.7	\$ 19.0	\$ - 1.7	-8.2%	\$ 1.5	\$ 2.6	\$ 1.1	73.3%
Local Option Taxes *	\$ 805.7	\$ 778.3	\$ - 27.4	-3.4%	\$ 52.1	\$ 48.4	\$ - 3.7	-7.1%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.